



JOHN NAIMO
ACTING AUDITOR-CONTROLLER

COUNTY OF LOS ANGELES DEPARTMENT OF AUDITOR-CONTROLLER

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July 2, 2014

TO: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

FROM: John Naimo
Acting Auditor-Controller

A handwritten signature in black ink that reads "John Naimo". The signature is written in a cursive, flowing style.

SUBJECT: **FIRE DEPARTMENT - PROCUREMENT REVIEW**

In August 2007, your Board instructed the Auditor-Controller to develop a risk-based plan to audit procurement operations in all County departments. In accordance with the developed plan, we completed a review of the Fire Department's (Fire or Department) compliance with County procurement policies and procedures.

Background

Fire's Materials Management Division (Materials Management) has primary responsibility for reviewing purchase requisitions, approving purchase orders, ordering goods/services, receiving/tracking supply inventories, receiving/controlling equipment, and disposing of obsolete/surplus items. Materials Management includes the Procurement Section, Property Unit, and the Department's warehouse operations. Fire's Expenditure Management Section is responsible for reviewing and approving invoices and issuing payments to vendors. Fire's Fiscal Year (FY) 2012-13 services and supplies budget was approximately \$124 million.

Review Scope and Summary

We reviewed Fire's procurement practices for compliance with County policies and procedures. Our review included interviewing Fire personnel, reviewing purchases and payments, evaluating internal controls, inventorying a sample of equipment and supplies, and observing supply warehouse and stockroom operations. We also evaluated controls over Fire's use of the electronic Countywide Accounting and Purchasing System (eCAPS) Procurement function.

Fire's purchases were appropriate and necessary for their operations. However, we noted that Fire needs to improve compliance with County purchasing policies. The following is a summary of some of the issues identified during our review:

- **Incomplete Purchasing Documents** - Fire staff did not have properly completed/approved requisitions for 15 (52%) of 29 purchases reviewed, totaling \$339,400. In addition, Fire did not properly complete the purchase order for four (14%) purchases, totaling \$130,200. Fire management should ensure that before purchases are made, purchase requisitions and purchase orders are properly prepared and approved. This ensures that the appropriate items and quantities are ordered at a price acceptable to management.

Fire's attached response indicates that Procurement staff have been reminded of and provided copies of County purchasing policies and procedures, and will receive on-going periodic training. In addition, the Department plans to fully implement the eCAPS Procurement module in FY 2014-15, which will enhance the Department's internal controls and oversight.

- **Insufficient eCAPS Security** - We noted five (20%) of 25 eCAPS users reviewed had access that was beyond their job responsibilities, and three (12%) users had incompatible eCAPS capabilities, which could compromise the procurement process. Additionally, two (8%) staff had multiple approval level capabilities allowing them to process a transaction on their own. Fire management should review security reports regularly to ensure proper separation of duties exists, and that access to eCAPS is appropriate.

Fire's attached response indicates that they have trained their Security Role Coordinator to ensure adequate separation of duties exists, in accordance with Internal Control Plan guidelines, and that the Security Role Coordinator will periodically review security reports to ensure access to eCAPS is appropriate.

- **Insufficient Asset Tracking** - Fire could not locate one (3%) of 32 capital assets, totaling \$12,800, and four (8%) of 51 non-capital assets, totaling \$4,200. In addition, three (9%) capital assets, totaling \$197,600, were not tagged, and two (6%) capital assets, with a combined value of \$336,800, had incorrect tag numbers (i.e., tag had the old Internal Services Division (ISD) asset number or tags were switched on two identical assets). We also noted that the County's capital asset listing, Fire's master asset listings, and the individual units' asset listings did not always reconcile. Fire management should conduct asset inventories in accordance with the County Fiscal Manual, and ensure assets are properly tagged and asset listings reconcile to one another.

Fire's attached response indicates that staff have been reminded to be more diligent in tagging, tracking, and maintaining the Department's capital equipment records. In addition, random audits of capital equipment are periodically being performed by the warehouse manager. Fire's response also indicates that the items in the report have been located and properly dispositioned. In December 2013, the Department began etching asset numbers on equipment, in addition to applying asset tags, to minimize

the risk of unidentified equipment. By December 2014, Fire plans to implement control software systems that will allow the Department to install additional points of access controls for non-capital equipment, and maintain a sign in/out log to track assets.

- **Inadequate Warehousing and Supply Processes** - We inventoried 30 supply items from Fire's warehouses, and noted discrepancies between our physical counts and the Department's inventory records for 15 (50%) of the items, resulting in perpetual inventory record understatements of \$11,600, and overstatements of \$2,400. In addition, we noted that Fire did not perform annual physical inventories of supplies for three (50%) of their six warehouses, and that one of these warehouses does not maintain an inventory system at all. Fire should conduct annual physical inventories of all supply inventory items at all locations, and maintain accurate perpetual inventory records by recording additions and deletions as they occur.

Fire's attached response indicates that the Department is performing manual cycle counts and annual physical inventories of their warehouses. The Department also plans to implement the e-Inventory module, which will allow the system to electronically maintain real-time stock levels, and standardize warehouse inventories using eCAPS for most of their warehouses.

Detailed results of our review and recommendations are included in Attachment I.

Review of Report

We discussed the results of our review with Fire management. They generally agreed with our findings and recommendations. Fire's attached response (Attachment II) describes the corrective actions they have taken, or plan to take, to address the recommendations in our report.

We thank Fire management and staff for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Robert Smythe at (213) 253-0101.

JN:AB:RS

Attachments

- c: William T Fujioka, Chief Executive Officer
Daryl L. Osby, Fire Chief
Jim Jones, Director, Internal Services Department
Department Heads
Public Information Office
Audit Committee

FIRE DEPARTMENT PROCUREMENT REVIEW

Background

In August 2007, your Board instructed the Auditor-Controller to develop a risk-based plan to audit procurement operations in all County departments. In accordance with the developed plan, we completed a review of the Fire Department's (Fire or Department) compliance with County procurement policies and procedures.

Fire's Materials Management Division (Materials Management) has primary responsibility for reviewing purchase requisitions, approving purchase orders, ordering goods/services, receiving/tracking supply inventories, receiving/controlling equipment, and disposing of obsolete/surplus items. Materials Management includes the Procurement Section, Property Unit, and the Department's warehouse operations. Fire's Expenditure Management Section is responsible for reviewing and approving invoices and issuing payments to vendors. Fire's Fiscal Year (FY) 2012-13 services and supplies budget was approximately \$124 million.

Review Scope

We reviewed Fire's procurement practices for compliance with County policies and procedures. Our review included interviewing Fire personnel, reviewing purchases and payments, evaluating internal controls, inventorying a sample of equipment and supplies, and observing supply warehouse and stockroom operations. We also evaluated controls over Fire's use of the electronic Countywide Accounting and Purchasing System (eCAPS) Procurement function.

General Purchasing and Payment Controls

County Fiscal Manual (CFM) Chapter 4 requires department staff to complete purchase requisitions to request items, and obtain management approval. Approved requisitions are sent to procurement staff, who issue purchase orders to vendors to order the requisitioned items. Purchase orders are formal agreements between the County and vendors, which identify purchasing terms (e.g., item, quantity ordered, price, etc.), and initiate the encumbrance of budgeted funds. Purchases should not be initiated until the department has properly approved requisitions and purchase orders, so there is no ambiguity about what is being purchased, the agreed upon pricing, and the availability of funds. In addition, Departments must cancel remaining encumbrance balances/purchase orders after goods/services are fully paid.

We reviewed 29 purchases made in FY 2010-11, totaling approximately \$1.2 million, and noted the following:

- **Purchase Requisitions** - Fire did not have properly completed/approved requisitions for 15 (52%) purchases, totaling \$339,400. We noted 12 instances

where the requisition was not approved by two individuals and/or did not include the proper approval level, and one instance where the requisition was approved after the goods were received. We also noted two instances where the Department created blanket requisitions that allowed them to purchase any item/quantity from a specific vendor up to an approved amount. A blanket requisition does not include specific details, such as required items or quantities, and defeats the intended control and greater transparency inherent in management's approval of individual requisitions.

- **Purchase Orders** - Fire did not properly complete the purchase order for four (14%) purchases, totaling \$130,200. Fire either purchased items that were not approved on the requisition, or modified the purchase order after the goods were received because the purchase order did not include the items received and invoiced.
- **Encumbrance Balances** - We noted three instances where the Department did not properly cancel remaining encumbrance balances after goods/services were fully paid, resulting in an encumbered balance of \$16,500. Cancelling unneeded encumbrances releases funds for use toward other departmental needs.

In addition, CFM Section 4.5.13 requires departments to pay invoices within 30 days of receipt, or earlier if a discount is available. Our review of the 29 purchases noted that two (7%) invoices were paid an average of 30 days late, and available discounts were not taken.

Recommendations

Fire management:

1. **Ensure staff properly prepare and managers approve requisitions and purchase orders before purchases are made to ensure that payments can be processed within 30 days of receipt and available discounts are taken.**
2. **Ensure encumbrances with remaining balances are properly cancelled after goods/services are fully paid.**

Non-Agreement and Agreement Purchases

The Internal Services Department (ISD), as the County's purchasing agent, delegated to Fire the authority to purchase non-agreement items under \$10,000. However, Departments must still comply with ISD policies when making non-agreement purchases under their delegated authority, including obtaining three price quotes for purchases over \$1,500. All purchases over the delegated authority must be processed by ISD.

ISD establishes agreements with vendors for commonly purchased items. Departments can purchase items covered by the agreements without obtaining price quotes, and purchases are not subject to the delegated authority limits. ISD's purchasing policies indicate that departments should assist in identifying the potential need for additional agreements by monitoring frequent non-agreement purchases, and notifying ISD to establish new agreements when it is beneficial to the County.

We reviewed Fire's non-agreement and agreement purchases, and noted the following:

- **Split Purchases** - We reviewed all of Fire's FY 2010-11 purchases, and identified six split purchases, totaling \$111,900. For example, four purchases for paramedic supplies were split between two vendors. Since one vendor charged a higher unit price for the supplies, the Department paid an additional \$1,300, which they could have saved if the entire purchase had been made from the lower priced vendor.
- **Price Quotes** - Fire did not obtain the required price quotes for three (21%) of 14 non-agreement purchases reviewed, totaling \$28,000. Staff should properly request price quotes to ensure Fire receives the lowest possible prices.
- **Frequent Non-Agreement Purchases** - In FY 2010-11, Fire frequently purchased a variety of commodities (e.g., rescue and paramedic supplies, medical equipment, etc.), totaling \$1.9 million, from 22 non-agreement vendors. Fire could have potentially received a lower price for some of these commodities had they contacted ISD to establish an agreement with these vendors. Fire should monitor frequently purchased items from non-agreement vendors, and notify ISD of the potential for establishing vendor purchasing agreements to ensure the County receives the lowest possible prices. Subsequent to our review, the Department established an agreement with one of the vendors for a frequently purchased item.

Recommendations

Fire management ensure staff:

3. **Do not split purchases to circumvent purchasing requirements.**
4. **Request price quotes, as required by County purchasing policies.**
5. **Monitor frequently purchased items from non-agreement vendors, and notify the Internal Services Department of the potential for establishing vendor purchasing agreements.**

eCAPS Security

eCAPS Procurement allows departmental staff to initiate and approve various purchasing functions online. The requisitioning, ordering, receiving, and invoice processing functions should be segregated to reduce the risk of errors or fraud. We reviewed the eCAPS access profiles for a sample of 25 Department users, and noted the following:

eCAPS User Profiles

Sections 4.5.5 and 5.2.3 of the CFM require that employees who initiate payments for goods/services do not have procurement responsibilities, and that the functions of ordering, authorizing, receiving, conducting physical inventories, and recording transactions be adequately separated. During our review, we noted that:

- Three (12%) of 25 users had incompatible eCAPS capabilities that could compromise the procurement process. We identified two employees who can receive goods and approve inventory additions, and one employee who can receive goods and approve payments.

eCAPS User Access

Section 8.7.4 of the CFM requires that system access be limited to only what is needed for users to perform their assigned duties. At the time of our review, we noted:

- Five (20%) of 25 staff were given access beyond their job responsibilities.
- Two (8%) of 25 staff had multiple approval level capabilities allowing them to process a transaction on their own.
- Two (8%) of 25 staff had eCAPS access an average of one year after leaving the Department. Subsequent to our review, we verified that Fire disabled the former employees' eCAPS access.

Recommendations

Fire management:

6. **Separate the duties of requisitioning, ordering, receiving, invoice processing, and inventory functions.**
7. **Ensure the Department's eCAPS Security Role Coordinator regularly reviews security reports to ensure access to eCAPS is appropriate and is consistent with the Internal Control Plan, and reassess or remove access, as applicable, when staff change assignments or leave the Department.**

Capital and Non-Capital Equipment

Capital equipment includes items with a useful life over one year and acquisition costs over \$5,000. Non-capital equipment includes portable items with an acquisition cost under \$5,000. Chapter 6 of the CFM requires departments to keep accurate equipment lists, track equipment with property tags, and assign responsibility for equipment. Departments must also conduct a physical inventory of capital equipment every two years, and non-capital equipment every year.

As of June 2013, Fire's capital equipment had a total cumulative acquisition cost of approximately \$253 million. We determined that while Fire conducts annual inventories of capital and non-capital assets, the Department does not inventory all assets.

We inventoried a sample of Fire's capital and non-capital assets, and noted the following:

- **Missing Assets** - Fire could not locate one (3%) of 32 capital assets, valued at \$12,800, and four (8%) of 51 non-capital assets, valued at a total of \$4,200.
- **Asset Tags** - Fire did not properly tag all of its capital equipment. Specifically, we noted that three (9%) of 32 capital assets, valued at \$197,600, were not tagged, and two (6%) capital assets, with a combined value of \$336,800, had incorrect tag numbers (i.e., tag had the old ISD asset number or tags were switched on two identical assets).
- **Asset Listings** - Fire indicated that they reconcile the County's capital asset listing, their master asset listings, and the individual units' asset listings annually. However, we noted the listings did not always reconcile. For example, there were capital assets listed on both the County's capital asset and the Department's master asset listings that were not included on the individual units' asset listings.
- **Asset Security** - We noted that for eight (42%) of 19 warehouse/storage locations reviewed for the Construction & Maintenance Division (C&M), assets were not adequately secured (i.e., locations were left unlocked and frequently unattended). In addition, for four (8%) of 51 non-capital assets we reviewed, valued at \$7,800, the Department did not properly maintain a sign-in/out log for the unassigned assets, as required by CFM Section 6.8.2.
- **Asset Disposal** - Section 6.10.2 of the CFM requires that asset disposals be properly documented and that managers authorizing the disposal of surplus/obsolete items have no other capital asset responsibilities. However, we noted that a manager with capital asset responsibilities also authorizes the disposal of surplus/obsolete items. We also noted that two (40%) of five surplus property disposal transactions we reviewed were not properly documented (i.e.,

the Department either did not complete the required form or listed incorrect assets on the disposal document).

Recommendations

Fire management:

8. **Conduct asset inventories in accordance with the County Fiscal Manual, and determine the disposition of the \$17,000 (\$12,800 + \$4,200) in unaccounted capital and non-capital assets.**
9. **Ensure assets are properly tagged upon receipt, and that asset listings reconcile to one another.**
10. **Ensure assets are adequately secured, and sign-in/out logs are maintained for all unassigned assets.**
11. **Assign responsibility for asset disposal to an individual with no capital asset duties, and ensure the required documentation for disposed equipment is properly completed.**

Warehousing and Supply Inventory

Controls Over Warehouse and Supplies

Fire maintains six warehouses with inventory. As of June 2011, the inventory for five of the warehouses totaled approximately \$11.3 million. We were unable to determine the inventory value for the remaining warehouse because the warehouse does not have an inventory system, as discussed further below. In addition, Fire maintains vehicles that permanently store inventory and assets.

We reviewed Fire's six warehouses and a sample of vehicles that store inventory and assets, and noted the following:

Inventory Discrepancies

Sections 5.2.5 and 5.2.6 of the CFM require departments to conduct annual physical inventories of supply items (e.g., maintenance and construction supplies, etc.), and to maintain accurate perpetual inventory records, which account for changes in inventory as they occur.

We noted that Fire did not perform annual physical inventories of supplies for three (50%) of six warehouses. In addition, we performed a physical inventory of 30 supply items from Fire's warehouses and noted 15 (50%) of the items did not reconcile to the Department's perpetual inventory records. For example, one warehouse's records indicated that they had 157 cases of towels valued at approximately \$7,100. However,

our physical count verified that they had 210 cases of towels valued at approximately \$9,500. Overall, the discrepancies we noted resulted in perpetual inventory record understatements of \$11,600, and overstatements of \$2,400. Our review also determined that one warehouse does not maintain an inventory system at all. As a result, Department management does not maintain accountability over all of their purchases.

In addition, we noted that Fire has different types of inventory systems for each of the five warehouses that maintain an inventory system. As a result, the Department is not able to apply a consistent set of policies, procedures, and training to all warehouse operations and among procurement staff. Many of the inventory issues noted in this report could have been prevented or detected if Fire utilized a properly working standardized inventory system across all its warehouse operations.

Warehouse Access

Section 5.2.5 of the CFM requires departments to ensure access to inventory is restricted to authorized employees. Three of Fire's warehouses have over 140 pre-programmed keycards (keycards) that grant access to their inventory. We reviewed 30 keycards, and noted that 23 (77%) are not properly assigned. For example, some of the keycards are not assigned to specific employees, are assigned to employees whose job responsibilities do not require access, and some employees have multiple keycards with the same access. Fire was also unable to provide a listing of individuals who have access to various shops/stockrooms. In addition, high unit cost items that are easily convertible to personal use are not stored in Fire's higher security areas. Specifically, copper wire is kept in non-secure areas.

Vehicle Access

We sampled five vehicles (i.e., utility trucks and vans) that store inventory and assets, and noted that four (80%) vehicles have identical key access, granting multiple employees access to the vehicles. Fire also does not keep track of which employees have this type of access, or which vehicles have identical key access. In addition, for two (40%) vehicles, technicians are provided with access to the vehicle inventory when they are servicing vehicles.

In June 2011, Fire conducted an internal review of C&M's warehouse operations and controls. The issues we noted related to C&M are generally consistent with Fire's review.

Stock Transactions

Chapter 5 of the CFM states that all proposed purchases must be approved prior to ordering items, and items issued from inventory (i.e., stock items issued out to department sections, for specific jobs, etc.) should only be made after a properly approved requisition is completed. In addition, the CFM requires that stock transactions

be reported and accounted for timely, and that departments perform a post approval review of monthly billings for low value materials used on a daily basis (e.g., craft parts, etc.) to identify potentially inappropriate purchases.

We reviewed 32 stock transactions (i.e., additions, issuances, and adjustments), and noted that the Department did not properly authorize 13 (41%) transactions, totaling \$26,600, and posted four (13%) transactions an average of 16 days late. The Department also did not record three (9%) transactions accurately. For example, incorrect stock items were issued for one transaction, resulting in inaccurate inventory records. In addition, for two (33%) of six warehouses, the Department did not perform post approval review of monthly billings for low value materials used on a daily basis.

Recommendations

Fire management:

- 12. Conduct annual physical inventories of all supply inventory items at all locations, and maintain accurate perpetual inventory records by recording additions and deletions as they occur.**
- 13. Consider implementing a properly working standardized inventory system and related policies and procedures across all its warehouse operations to ensure all inventory is accounted for, and all records are accurate and complete.**
- 14. Ensure inventory is properly secured, and properly track individuals and keys that provide access to inventory.**
- 15. Ensure stock transactions are properly authorized and accurately recorded timely, and perform a post approval review of monthly billings for low value materials used on a daily basis.**



COUNTY OF LOS ANGELES

FIRE DEPARTMENT

1320 NORTH EASTERN AVENUE
LOS ANGELES CALIFORNIA 90063-3294

DARYL L. OSBY
FIRE CHIEF
FORESTER & FIRE WARDEN

May 21, 2014

TO: JOHN NAIMO, ACTING AUDITOR-CONTROLLER

FROM: DARYL L. OSBY, FIRE CHIEF *Daryl L. Osby*

RESPONSE TO THE AUDITOR-CONTROLLER'S PROCUREMENT REVIEW OF THE FIRE DISTRICT

Attached is the Fire District's (District) response to the Auditor-Controller's Procurement Review dated February 20, 2014. The review covered Fiscal Year (FY) 2010-11 transactions and resulted in a total of 15 recommendations.

The District concurs with the recommendations, however, it should be noted that the majority of the findings were due to staffing shortages as a result of the fiscal challenges the District faced in FY 2009-10. The economic downturn negatively impacted the property tax revenues available to the District. To minimize the funding gap, the District implemented a self-imposed hiring freeze of non-emergency positions, restricted non-emergency overtime, and reduced discretionary expenditures. These cost curtailment efforts required the District to manage the same volume of work with less staffing. In September 2013, these curtailments were lifted due to an improved financial forecast.

The District is close to implementing all of the recommendations. Additionally, there are several automation projects in the planning and/or implementation phase which will also increase our internal controls while providing greater efficiencies for the District. Details regarding the implementation status of these recommendations and our automation projects are included in the attached response to the audit recommendations listed in your report.

If you have any questions, please contact me at (323) 881-6180, or your staff may contact Deputy Chief Dawnna B. Lawrence at (323) 881-2426.

DLO:dmd

Attachment

SERVING THE UNINCORPORATED AREAS OF LOS ANGELES COUNTY AND THE CITIES OF

AGUIRRE HILLS	CALABASAS	DIAMOND BAR	HIDDEN HILLS	LA MIRADA	MAJIBU	POCAHONTAS	SIGNAL HILL
ARTESIA	CARSON	DUARTE	KENTINGTON PARK	LA PUENTE	MANHATTAN	RANCHO PALOS VERDES	SOUTH EL MONTE
AZUSA	CERRITOS	EL MONTE	INDUSTRY	SANTA ANA	NORWALK	ROLLING HILLS	SOUTH GATE
BALDWIN PARK	CLAREMONT	INGLEWOOD	INGLEWOOD	SAN DIMAS	PALM BEACH	ROLLING HILLS ESTATES	TEMPLE CITY
BELL	COMMERCE	GLENDORA	IRVINGDALE	PALOS VERDES ESTATES	ROSEMEAD	ROSEMEAD	WALNUT
BELL GARDENS	Covina	HAWAIIAN GARDENS	LA CANAÑA FLINTROCK	PARAMOUNT	SAN DIMAS	SAN DIMAS	WEST HOLLYWOOD
BELLFLOWER	DUBLIN	HAWTHORNE	LA HABRA	ROCKFORD	SANTA CLARETE	SANTA CLARETE	WEST LAKE VILLAGE
BRANDRIFT							YERLIER

AUDITOR-CONTROLLER'S PROCUREMENT REVIEW

**LOS ANGELES COUNTY FIRE DISTRICT'S
RESPONSE TO RECOMMENDATIONS**

Below is the Fire Department's (District) response to the Auditor-Controller's Procurement Review dated February 20, 2014. The review covered Fiscal Year (FY) 2010-11 transactions and resulted in a total of 15 recommendations.

Recommendations Numbers 1 Through 5

1. Ensure staff properly prepares and managers approve requisitions and purchase orders before purchases are made to ensure that payments can be processed within 30 days of receipt and available discounts are taken.
2. Ensure encumbrances with remaining balances are properly cancelled after goods/services are fully paid.
3. Do not split purchases to circumvent the requirements.
4. Request price quotes as required by County purchasing policy.
5. Monitor frequently purchased items from non-agreement vendors and notify the Internal Services Department of the potential for establishing vendor purchasing agreements.

District's Response

Due to the District's self-imposed hiring freeze, the shortage of staff and lack of adequate managerial oversight interrupted the proper workflow of requisitions and purchase orders. Procurement staff has been reminded of County purchasing policies and procedures, and have been provided with copies. Procurement staff will receive ongoing periodic training on County purchasing policies and procedures.

Additionally, the District will fully implement the eCAPS procurement module in FY 2014-15. The workflow process in eCAPS will enhance the District's internal controls and oversight.

Completed

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Recommendations Numbers 6 Through 7

6. Separate the duties of requisitioning, ordering, receiving, invoice processing, and inventory functions.
7. Ensure the Department's eCAPS security coordinator regularly reviews security reports to ensure access to eCAPS is appropriate and is consistent with the ICP, and reassess or remove access, as applicable, when staff change assignments or leave the Department.

District's Response

Due to the District's self-imposed hiring freeze, the District was not able to maintain adequate separation of duties or periodically update the eCAPS security roles in the system when employees left the District. To mitigate the risk of errors and fraud, management provided additional oversight over those individuals with incompatible roles that had access to the system. The District has trained the Security Role Coordinator to ensure adequate separation of duties exists in accordance with the Internal Control Plan guidelines. Additionally, the Security Role Coordinator will periodically review security reports to ensure access to eCAPS is appropriate.

Completed

Recommendations Numbers 8 Through 11

8. Conduct asset inventories in accordance with the County Fiscal Manual, and determine the disposition of the \$17,000 (\$12,800 + \$4,200) in unaccounted capital and non-capital assets.
9. Ensure assets are properly tagged upon receipt, and that asset listings reconcile to one another.
10. Ensure assets are adequately secured, and sign-in/out logs are maintained for all unassigned assets.
11. Assign responsibility for asset disposal to an individual with no capital asset duties, and ensure the required documentation for disposed equipment is properly completed.

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District's Response

Due to the District's self-imposed hiring freeze, the shortage of staff and lack of adequate managerial oversight hampered the District's ability to ensure all capital equipment was properly tagged, tracked, and recorded in the Department's master listing.

Staff has been reminded to be more diligent in tagging, tracking, and maintaining the District's various capital equipment records. Moreover, random audits are periodically being performed by the warehouse manager.

The items listed in the report were located and properly dispositioned. The District found that some of the missing asset tags were due to the effect of petroleum used to operate the equipment. In December 2013, the District began etching the asset numbers on the equipment in addition to applying the asset tag to minimize the risk of unidentified equipment.

To further enhance the internal controls over non-capital equipment, the District's Construction and Maintenance Division is transitioning to Sielox, an Access Control System, which will allow the District to install additional points of access controls in these inventory areas. Additionally, the District will begin utilizing the asset-tracking feature within the Maximo software program to maintain a sign-in/out log. Implementation of this new system is anticipated in December 2014.

Completed

Recommendations Numbers 12 Through 15

12. Conduct annual physical inventories of all supply inventory items at all locations, and maintain accurate perpetual inventory records by recording additions and deletions as they occur.
13. Consider implementing a properly working standardized inventory system and related policies and procedures across all its warehouse operations to ensure all inventory is accounted for, and all records are accurate and complete.
14. Ensure inventory is properly secured, and properly track individuals and keys that provide access to inventory.
15. Ensure stock transactions are properly authorized and accurately recorded timely, and perform a post approval review of monthly billings for low value materials used on a daily basis.

John Naimo, Acting Auditor Controller
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District's Response

Due to the District's self-imposed hiring freeze, the shortage of staff and lack of adequate managerial oversight hampered the District's ability to ensure adequate internal controls existed over the warehouses to mitigate potential risk.

The following actions have/are being taken:

- The District's Pacoima, Eastern, and Lancaster warehouses are performing manual cycle counts including annual physical inventories. Additionally, the District will fully implement the e-Inventory module, which will improve the current process by allowing the system to electronically maintain real-time stock levels.

Completed

- The District is standardizing its warehouse inventories across the board utilizing eCAPS except in the Construction and Maintenance Division's warehouse where Maximo proved to be a more effective system for tracking inventory.

Anticipated completion date: December 2014

- The District periodically reviews internal access controls and ensured that appropriate levels of access have been given only to employees with job responsibilities that require access to inventory.

Completed

- The District is taking steps to equip vehicles with a security/selected divider separating the cab from the material and tools. The vehicles that were questioned are being phased out and replaced with utility trucks that have individual locking bins.

Anticipated completion date: June 2015

- Warehouse staff is periodically reminded to ensure all stock transactions are authorized and recorded accurately and timely. Additionally, warehouse staff are performing a post-approval reverse of monthly billings for low value materials used on a daily basis.

Completed